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High-level Panel Meeting on Island
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REPORT OF THE HIGH-LEVEL PANEL MEETING ON ISLAND DEVELOPING COUNTRIES

INTRODUCTION

1. The General Assembly, in its resolution 49/100 of 19 December 1994, invited the Commission on Sustainable Development to convene a high-level panel to discuss the challenges faced by island developing countries, particularly in the area of external trade, and invited the Secretary-General of the United Nations Conference on Trade and Development (UNCTAD) to organize such a panel. The documentation prepared for the Panel and the discussion that took place during its meeting also responded to the recommendation made in paragraph 99 of the Programme of Action adopted at the Global Conference for the Sustainable Development of Small Island Developing States (see A/CONF.167/9, chap. I, resolution 1, annex II) that "a study should be undertaken on the effects of trade liberalization and globalization on the sustainable development of small island developing States".

2. The High-level Panel Meeting on Island Developing Countries was held at United Nations Headquarters in New York on 22 and 23 April 1996. At the request of the Panel, Hon. Rundheersing Bheenick (Minister of Finance of Mauritius) served as Chairman of the panel. Ambassador Eugene Pursoo (Grenada) was elected Vice-Chairman-cum-Rapporteur. The present report gives a brief account of the proceedings, including the main issues presented in the documentation that were noted and agreed on by the Panel.

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I. OVERVIEW OF THE ECONOMIC PERFORMANCE AND BASIC CHARACTERISTICS OF ISLAND DEVELOPING COUNTRIES

A. Economic performance, particularly in the external trade sector

3. In 1993, the average per capita gross national product (GNP) of the 37 island developing countries with a population under 1 million was US$ 4,389, as compared to about US$ 984 for all developing countries. During 1983-1993, the average annual growth rate of GNP was about 3.8 per cent in the island developing countries; in per capita terms, the rate was 2.2 per cent. The relatively high GNP per capita growth rates in the island developing countries are in many cases related to a very low population growth rate, which reflects high rates of emigration of nationals to work in other countries. Furthermore, although most island developing countries experienced relatively favourable growth rates over the 1980s as a whole, they also experienced significant year-to-year volatility of economic growth, particularly in Pacific island economies and to some extent in the Caribbean countries. Such volatility is often associated with proneness to major economic shocks of all kinds, including natural disasters. These trends in economic growth should, however, be seen in a broader context in that GNP growth rates are not the only criteria for measuring the sustainability of development in island developing countries.

4. Available data indicate that during the 1980s, the external sector performance of island developing countries with a population under 5 million was slightly better than that of non-island developing countries with the same population (4.4 per cent for exports and 7 per cent for imports for island developing countries, 3.6 per cent and 4.3 per cent for non-island developing countries). A significant feature of the external sector trends in island developing countries, however, is the degree of export instability. During 1970-1980, export instability in island developing countries increased by 25 per cent, while in non-island developing countries it diminished by 14.5 per cent. Such instability reflects frequent fluctuations in international prices and the demand for certain traditional exports, as well as the destructive impact of natural disasters. The limited range of export commodities available in island developing countries is an added compounding factor that perpetuates such instability.

5. The export performance of individual island developing countries, however, varies considerably. The smallest and most remote countries, which are mainly located in the Pacific, do not have any significant domestic resources to propel export growth. They are heavily dependent on external rental income (trust funds, royalties from fishing rights, income from foreign military installations etc.). On the other end of the spectrum are a few countries - usually the larger ones - that have been more successful in diversifying their economies by developing export manufacturing, such as the Dominican Republic, Jamaica, Haiti, Trinidad and Tobago, Mauritius and Cyprus. Export growth in such countries has also been boosted by service exports, particularly tourism and financial services, as well as by the export of a few primary commodities.

B. Basic characteristics of island developing countries

6. Although the island developing countries are a very diverse group of countries with a wide range of geographical situations, natural resource endowments and economic capacities, all are in varying degrees subjected to a range of handicaps arising from the interplay of such factors as small size; remoteness; geographical dispersion; vulnerability to natural disasters; fragility of ecosystems; constraints on transport and communications; great distances from market centres; a highly limited internal market; lack of natural resources; weak indigenous technological capacity; acute difficulties in obtaining freshwater supplies; heavy dependence on imports and a small number of commodities; depletion of non-renewable resources; migration, particularly of highly skilled personnel; shortage of administrative personnel; and heavy financial burdens.

7. Most of the above-mentioned factors are particularly acute in small island developing countries with a narrow natural and human resource base and a small domestic market. In 1993, some 42 island developing countries had a population of less than 1 million. As to land area, 41 countries had land areas of less than 20,000 square kilometres and 33 countries areas of less than 1,000 square kilometres. Due to their small size, the economic structure of many such island developing countries is not very diversified; combined with heavy dependence on a few export commodities, this makes many of them vulnerable to instability arising from external economic shocks and international price/demand fluctuations, a major problem for their economies.

8. Their limited economic size also means that small island developing countries have reduced opportunities to take advantage of economies of scale, which tends to lead to high unit costs; small island developing countries, therefore, must devote a large proportion of their scarce financial and human resources to providing basic infrastructure and services. Archipelagic island developing countries also suffer from particular diseconomies of scale, since infrastructure must be duplicated on each inhabited island.

9. With respect to remoteness, most small island developing countries are 200 to 1,000 kilometres (km) from the nearest continent. They need to be self-sufficient in their infrastructure, such as ports and airports; by contrast, in a small continental country such services may be available in a neighbouring country and accessible by road. The islands of the Caribbean are separated from a market of more than 500,000 people by an average distance of 700 km, those of the West Indian Ocean by 1,800 km, and those of the central and western Pacific by nearly 3,000 km. The small island developing countries of the Indian and Pacific oceans are particularly remote from the land masses that are their trading partners, their migrant destinations and their sources of tourism. As a result, the costs of imported goods are particularly high, and high freight rates also militate against the competitiveness of exports.

10. The impact of the cost of island remoteness on international tourism, however, may be less negative. For many tourists, the inconvenience caused by a longer flying distance with a reasonable cost difference will often be deemed acceptable in comparison with the interest in the island destination. Moreover, in most other areas of international services, the disadvantages of remoteness

may be considerably reduced due to the increasing use of modern telecommunications.

11. The limited domestic market is a powerful incentive for establishing greater openness in the economies of island developing countries. International trade is an opportunity to fulfil needs that cannot be met by import substitution. Consequently, such heavy import dependence must be financed by a corresponding export effort to the extent that other forms of foreign-exchange transfers are insufficient. The island developing countries, however, are seriously constrained in their efforts to expand their export sector because of the low domestic technological capability and the narrow range of resources available to support the export base.

12. Given their heavy dependence on imports, small island developing countries - that have limited capabilities for the identification of appropriate sources of supply and also have limited access to information on comparative price levels for various import commodities - may have to bear heavy import bills that are already inflated by the high transport costs associated with their remoteness.

13. Another factor characteristic of the export sector of island developing countries is their specialization in a small number of export items, which is apparent in the relatively high merchandise concentration indices in many island developing countries. Specialization and extreme dependence on the external economic environment renders the economies of island developing countries extremely vulnerable. They have minimum resilience to external shocks over which they have no control. Such external shocks are reflected in wide fluctuations in production and export volumes, as well as world market price fluctuations and market restrictions.

14. An additional factor that has an adverse impact on the external sector performance of island developing countries is the burden of high international transport costs. The higher levels of transport costs for island destinations result from the low volume of individual shipments to and from islands, combined with the imbalance between the volume of merchandise imports and exports, as well as the remoteness of several island developing countries from their trading partners. Furthermore, many small island developing countries do not have the deep-water port facilities to handle bigger vessels, thus making island ports of call unattractive for long-haul shipping lines, particularly in the Indian and Pacific oceans. As a result, even inter-island trade within the same subregion is often transshipped through external hub ports, and development in containerization and bulk transport has further limited the access of large seagoing vessels to small island ports with inadequate facilities.

15. As to air transport, over the last two decades several island developing countries have devoted significant investment to upgrading airport facilities so as to accommodate wide-bodied jets, thus reducing their isolation. Such isolation, however, is still relevant in the more remote island developing countries, such as Sao Tome and Principe, the Comoros, Kiribati, Tuvalu, Niue and Tokelau, as well as in many remote islands of archipelagic island developing countries. Island developing countries have a weak bargaining position

vis-à-vis suppliers and shippers, who have the leverage to raise transportation costs.

16. Other costs of insularity result from the unreliability of transportation, which compels importers in the island developing countries to hold large stocks of a wide range of goods, including such essential goods as foodstuffs, fuel and spare parts.

17. The already precarious export economy of island developing countries is further exacerbated by their proneness to natural disasters, which continues to undermine their export capabilities. Although large-scale disasters are not confined to island developing countries, natural disasters are a particular problem, because a single disaster can result in a wide national disaster in such countries since its effects are all-pervasive and often totally devastating for agriculture, as well as tourism and other activities and infrastructure in general. In 1979, for example, hurricane David destroyed banana plantations in Dominica, where that crop is the predominant agricultural and trade activity. In the Pacific, cyclones followed by prolonged drought in 1983 and 1985 damaged sugar cane and other crops in Fiji; as a result, sugar output fell by more than 40 per cent. In 1981, smaut disease in Saint Kitts and Nevis almost completely destroyed the sugar industry, a predominant export-earning and employment-generating sector. In 1982, hurricane Isaac destroyed 90 per cent of the banana crop in Tonga. On three occasions during the 1980s, banana cultivation, citrus and coconuts were damaged in Saint Lucia, Grenada and Saint Vincent and the Grenadines. Such frequent shocks imply that in the long run, sustainable livelihoods cannot be guaranteed in economies that are as heavily dependent on the export sector as island developing countries.

18. Furthermore, the export economy in many island developing countries is indirectly threatened by the damage caused by global hazards, such as global warming and the resulting rising sealevel, which exacerbate the economic and environmental fragility of island developing countries. Furthermore, waste disposal by dumping in the ocean threatens the marine resources. The countries or areas that are most at risk are Maldives, Tuvalu, Kiribati, Tokelau, the Cocos and Keeling Islands, the Cook Islands, some islands of Tonga, and the Marshall Islands.

19. General economic development, including the growth of the export sector, is also negatively affected by the high degree of international migration. Although migration provides an important source of income generation for many small island developing countries, particularly in the form of remittances, it invariably results in the loss of the more skilled, energetic and innovative members of their population, thus delaying the technological development that is essential for the diversification of production, adaptation to changing market conditions and effective competition in world markets.

20. The rapid depletion of non-renewable resources in several small island developing countries is also a major threat to the export economies of island developing countries, particularly in countries that are heavily dependent for their export earnings on products based on such resources as are Trinidad and Tobago and Bahrain on oil; Nauru and Kiribati on phosphates; the Bahamas and Turks and Caicos Islands on argonite: Vanuatu, Fiji, the Solomon Islands and the

Dominican Republic on gold; Haiti on bauxite; Vanuatu on manganese; and Bahrain and Trinidad and Tobago on hydrocarbons.

21. Several small and remote island developing countries are also vulnerable to such illicit activities as drug trafficking. Those countries may also attract other illicit activities such as money laundering and misuses of offshore financial instruments.

22. Regional cooperation among island developing countries and with other developing countries can help them overcome the constraints of their small size. Such arrangements, which already exist in several regions, provide wider operating environments for high-level skills and a larger market for tradeable commodities and services, and thereby increase the potential for scale economies and for joint production. Such cooperation schemes also offer a wider economic space, which is conducive to a good investment climate and provides a basis for exchanges of information on various development issues among island developing countries and other countries.

23. The island developing countries, however, have a range of advantages that are often not completely perceived and exploited, such as marine resources based on large exclusive economic zones and environmental diversity and beauty that are assets for enhancing specialized tourism: such advantages constitute a potential for export growth. Sociopolitical stability in many island developing countries has also acted as a major incentive for attracting foreign investment in offshore services, and has helped, inter alia, to propel export development. A favourable political environment, combined with good policy management, has also facilitated the strengthening of economic ties with major donor countries, which have provided special trade preferences, such as the Lomé Convention and the Caribbean Basin Initiative, which have eased access to foreign markets.

II. IMPLICATIONS FOR ISLAND DEVELOPING COUNTRIES OF TRADE LIBERALIZATION AND THE URUGUAY ROUND OF MULTILATERAL TRADE NEGOTIATIONS

24. In the long run, island developing countries are expected to benefit - as are other developing countries - from the global context of trade liberalization, which will bring about new trading opportunities, and from the new multilateral trade framework, which improves rules and disciplines relating to international trade. However, the extent to which island developing countries will be able to benefit from such developments will depend on their capacity to manage the transition to a situation of greater integration in the global economy. Many products made in island developing countries and exported to developed market countries enjoy preferential treatment under the Lomé Convention, the Caribbean Basin Economic Recovery Act, the Caribbean-Canadian Trade Agreement, the South Pacific Regional Trade and Economic Cooperation Agreement, and individual generalized systems and preferences granted by other countries that are members of the Organisation for Economic Cooperation and Development (OECD); trade preferences for island developing countries generally imply low-rate or zero-rate tariffs. Many island developing countries are faced with a double competitive challenge in the short run, first because of the erosion of trade preferences, and second because of the generally limited

capacity of island developing countries to meet new trading opportunities in terms of competitiveness and reliability of supply. For some island developing countries, therefore, little or no benefit is likely to be gained in the short run; a few island developing countries may actually be net losers due to losses in competitiveness and slow progress in seizing trading opportunities.

A. Changes in market access

25. The elimination of preferential access to the European Community (EC) market for coffee and cocoa beans producers of some island developing countries, such as Sao Tome and Principe, is regrettable. EC preferences for such products, as well as palm oil had helped island developing countries that incur high transport costs to reduce the comparative disadvantage thus entailed.

26. Concerning the export of bananas from island developing countries, in the light of the revised General Agreement on Tariffs and Trade (GATT), the EC import regime of preferences/tariff quotas for bananas from African, Caribbean and Pacific (ACP) countries is generally regarded as an unfair trade practice by non-ACP competing producers. Uncertainty concerning the extension of the regime beyond the official term of the Lomé Convention in 2000 makes the remaining period particularly critical for banana-producing island developing countries, which are compelled by circumstances to engage in long-term economic diversification.

27. Concerning sugar, which is of particular importance to some island developing countries, there is a risk that the intervention price of cane sugar that is offered to ACP countries by the EC might eventually decrease, even if quotas remain, as a result of the decrease in domestic support to European beet producers and the anticipated decrease in prices of beet sugar in EC countries.

28. Net food-importing island developing countries may suffer from increases in import prices of temperate products (cereals, meat) for which protection and subsidies will decrease. A ministerial decision was adopted at the end of the Uruguay Round of multilateral trade negotiations in favour of net food-importing countries. It is hoped that the compensatory measures that are expected to bring responses to the issue will be promptly implemented.

29. As a result of the Agreement on Textiles and Clothing, the gradual loss of preferences by island developing countries that export to developed countries which are called on to integrate Multifibre Arrangement (MFA) quotas into their general most-favoured-nation framework represents a major challenge for such island developing countries in view of the competition brought by third countries that will be able to export without MFA restrictions. It is important for all concerned island developing countries to take advantage of the 10-year phase-out period to adjust or reconsider their specialization in the textile sector. Adjustments should imply either significant efforts to increase competitiveness in existing textile activities or a certain amount of respecialization, either within the sector through diversification into higher value-added products or away from the sector by terminating least competitive productions.

30. For manufactured products in general, market access improvements resulting from the Uruguay Round will be beneficial to some island developing countries, particularly those that have already achieved a certain extent of diversification. For island developing countries that cannot specialize into products for which tariffs have diminished, the benefits are limited at present. However, export capacities may expand over time, with existing enterprises improving their export potential and new enterprises being created to seize new trading opportunities.

B. Agreements on non-tariff measures and new issues

31. Island developing countries whose products have been excluded by non-tariff measures will generally be better protected against unfair trade practices, since non-tariff measures will no longer be easily used as disguised forms of protection.

32. It is hoped that as a result of the Agreement on Safeguards the use of voluntary export restraints, orderly marketing arrangements and similar measures that can affect the external trade of certain island developing countries will no longer be possible. It is also expected that the de minimis clause (specifying a 3 per cent threshold in the partner country's total imports) will spare most island developing countries the threat of facing safeguard measures.

33. The Agreement on Subsidies and Countervailing Measures has complex legal and administrative implications for national implementation. Considering the supply constraints faced by many island developing countries, the use of subsidies within authorized limits should be guided by a global consideration of trading opportunities and the export potential. Many island developing countries are therefore likely to need technical assistance in implementing the Agreement.

34. The General Agreement on Trade in Services (GATS) offers a sound framework for the sector that is of great interest to island developing countries. GATS liberalizes cross-border movements of persons only at senior technical or managerial levels, which on the whole benefits island developing countries that have a prominent service sector (tourism, information processing, offshore finance etc.) and need expatriate expertise to raise such activities to international standards. It is in the interest of most island developing countries to liberalize the entry of quality services as inputs to foreign exchange-earning sectors of goods or services. Considering the importance for service economies of having access to advanced technology, island developing countries are encouraged to attach as a condition accompanying their schedules of commitments to GATS the possibility of benefiting from the assistance of developed countries in improving their access to technological facilities. An example relevant to the tourism sector is the access to computerized reservation systems, an area that is affected by article IV of GATS.

35. The Agreement on Trade-related Investment Measures (TRIMs) removes a certain degree of freedom in policy-making by prohibiting measures that are sometimes used by developing countries, including island developing countries, vis-à-vis foreign investors (local content requirements, trade balancing

requirements, minimum export requirements etc.). However, in most island developing countries, local inputs are insufficient, non-existent or unsteady. What matters more to most island developing countries is the prospect that foreign direct investment brings with regard to national employment and access to technology.

36. The Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPs) sets out a national-treatment commitment and a most-favoured-nation clause with regard to the protection of individual property. If the protection of such technology is effectively implemented, the increased cost of acquiring and using it could erode the export competitiveness of certain imitation products, particularly in the textile field, in which a number of island developing countries have been successful. At the same time, in accepting the Agreement on TRIPs there is an incentive for island developing countries to adopt appropriate technology in productive investment and pay more attention to the question of the optimum size and type of equipment, a concern that may be conducive to greater efficiency and profitability, as well as enhanced respect for the environment. Moreover, the Agreement will help island developing countries to ensure the protection of their own intellectual property rights, which will be particularly important for countries that will be diversifying into information-processing services based on locally designed software products that need appropriate protection.

37. In their consideration of the Understanding on Rules and Procedures Governing the Settlement of Disputes, island developing countries will generally benefit from the improvement brought to the new dispute settlement system, particularly because the new system is more equitable in its mediation between members with unequal bargaining powers. However, many island developing countries will be relatively unable to cope with procedural requirements, such as the various investigations and consultations implied in situations of dispute; it is therefore hoped that island developing countries that are involved in dispute settlement matters will obtain technical assistance to meet such requirements.

38. It may be in the interest of small countries in general and island developing countries in particular to facilitate the development of open economies with small numbers of efficient, larger enterprises. Governments of island developing countries should facilitate the emergence of competitive enterprises that are likely to raise quality standards while at the same time trimming price levels, which implies providing appropriate information on investment opportunities and appropriate local facilities for prospective foreign investors. Foreign direct investment and mergers or takeovers by foreign firms can bring about desirable results. Such developments, however, should be subject to competition policy if Governments want to ensure that no individual actor on the market enjoys excessive market power that would distort competition. It is therefore important to devise appropriate competition policy, adopt competition legislation and establish under such law a competition authority responsible for monitoring the implementation of the law and advising the Government on competition policy matters. The competition law should also include provisions for preventing anti-competitive mergers and acquisitions.

III. GLOBALIZATION AND THE SPECIALIZATION PROSPECTS OF ISLAND DEVELOPING COUNTRIES

39. Island developing countries should continue to aim to develop production capacities and varieties of inputs to meet the expectations of foreign partners. However, considering the difficulty of developing a carrying capacity in an island environment, many island developing countries do not expect to become fully integrated in the global economy. Such countries are often more tempted to pursue a niche market approach, since they expect the latter to offer economic opportunities of a more accessible nature.

A. Driving forces relevant to island developing countries in the context of globalization

1. Foreign direct investment

40. It is important for island developing countries to create a situation of competitive advantage in order to attract foreign investors. Factors of comparative advantage in this respect include socio-political stability and skilled human resources, the presence of a minimum diversity and quality of domestic producer services, and the existence of a reliable communications infrastructure. Another determining factor of the decision to invest is the participation of the host country in global trade and investment liberalization, particularly its commitments under the Agreement on TRIMs (unconstrained openness to investors), the Agreement on TRIPs (protection of the investor's industrial/intellectual rights) and GATS (cross-border transactions, commercial presence, personnel movements).

2. Global communications facilities

41. Gaining access to global communications facilities and information networks is very important for island developing countries, particularly for the development of trade in services: enterprises of small or medium size can thus broaden their markets by using information networks that allow them to disseminate information at a very low cost on their goods and services. Low-income island developing countries may find in electronic commerce such facilities as the cost-effective instruments for rationalizing their product specialization and enhancing their marketing possibilities offered by UNCTAD's Global Trade Point Network.

3. The new multilateral trade framework

42. The increased international competition that will result from the new multilateral trade framework will facilitate the globalization trend for all countries, including island developing countries. Virtually all island developing countries will eventually be members of the World Trade Organization (WTO), and trade liberalization should in the long run facilitate their better integration in the global economy. However, the transition to such integration is anticipated to be difficult for some countries, and will necessitate for all

island developing countries an appropriate and sustainable economic development strategy.

B. Globalization and micro-initiatives in the specialization of island developing countries

43. Some of the most disadvantaged island developing countries demonstrate little ability to diversify, or only maintain their specialization in tradeable goods or services, while others have already developed viable trading activities and are equipped to further diversify their economy in the light of new trading opportunities. For island developing countries, the issue of specialization imposes the choice between two apparently opposite approaches: (a) in the first approach, competitive activities in widely distributed goods or services imply a direct relationship with foreign economic actors who partake of the global economy; (b) in the second approach, micro-initiatives will involve island-specific goods or services with a unique nature, and will generally have a trade relationship with very few partners (the niche market approach). There are merits in both approaches, which are not incompatible and can reinforce each other and create a pattern of sustainable economic development.

1. Globally induced specialization

44. Conditions for successful specialization in globally related activities include an adequate physical infrastructure, in particular for international transport; the existence of a sufficient base of producer and professional services; a climate of socio-political stability; and sufficient openness to foreign investors in the trade-related investment regime. Such factors are actually more important for attracting foreign direct investors than labour cost competitiveness and investment incentives.

2. Niche-type specialization

45. Niche market activities are generally micro-development experiences based on small-scale projects that involve small inputs, small outputs and generally small market outlets. The niche market approach is apparently opposite to the globally induced approach to specialization, mainly because of differences in the numbers of economic actors involved and the size of markets (global as opposed to captive). However, the two approaches can be interrelated and complementary. There are many cases of island economic activities that stand close to one of the two models, while actually drawing on both in a viable manner. In many island developing countries, the two opposite approaches can be reconciled because they can reinforce each other. In particular, success vis-à-vis global competition may take place in island economies that have been able to create, despite handicaps, an enabling domestic environment (infrastructure, skilled human resources, producer services etc.) that can in turn enhance the chances of success of niche market activities, which often derive from initiatives that draw on competitive experience.

C. General remarks related to sectoral specialization

46. Viable respecialization often implies initial diversification within the commodity sector, followed by specialization in other activities.

47. There is a significant scope for viable specialization or respecialization for island developing countries through the development of international services, a field of activities that is being encouraged by the new WTO framework and in which there is space for initiatives to help island economies to find a path to economic sustainability. A large proportion of the encouraging scope for services lies in specialized tourism, offshore finance, information processing and a variety of micro-activities based on island-specific features and advantages.

48. Overall, successful specialization or respecialization implies the adoption of a development strategy that will adequately address the specific problems of island developing countries, will recognize and exploit all possible comparative advantages, and will take into consideration the aim of environmentally sustainable development.

IV. POLICY RECOMMENDATIONS

A. The new approach to island-specific characteristics

49. Particular attention should be given to the evidence of an increasingly broader variety of socio-economic situations among island developing countries. As a result, the relationship between island-specific handicaps related to their small size and remoteness, on the one hand, and their economic performance, on the other hand, has become less straightforward than in the past. Some small island economies that used to be regarded as acutely disadvantaged have actually demonstrated significant growth over time and are now classified among high-income countries, while some of the larger and less remote among them are facing severe challenges in the context of trade liberalization and globalization. In short, the nature of economic issues among island developing countries has evolved, even though the disadvantages of "islandness" remain real in many of them. This evolution of issues implies an evolution in the analysis towards policy responses.

50. In future analytical work, categorization of island developing countries by type of specialization, performance or vulnerability should be systematic. This is necessary if one is to enhance awareness of the relationship between their socio-economic performance and its underlying factors. Consideration of homogeneous sub-groups of those countries seems to be the avenue to effective cross-country analysis regarding them. There are still common characteristics and problems among island developing countries, but these characteristics and problems are more usefully dealt with within sub-groups and through comparisons between sub-groups. By studying island developing countries along these lines, one can draw lessons from the successes or failures of some island developing countries with a view to helping other such countries to achieve progress towards sustainable economic development.

B. Sustainable economic development strategy

51. The main challenge facing island developing countries is to adopt an overall development strategy that is designed to reduce the vulnerability of their economies and facilitate sustainable economic development. Such a strategy will have to be outward-oriented because trade in goods and services, international capital flows and international migration will continue to play an important role in the development patterns of these countries. Some flexibility should, however, also be encouraged to reduce the heavy dependence on imports by striving to create more integrated production structures based on available domestic resources in such areas as food and artisanal fisheries so as to build up and maintain a nutritional "safety net".

52. The development strategy of island developing countries should furthermore establish a framework for macroeconomic policies and reforms that respond effectively to longer-term requirements for sustainable development in various sectors of the economy. The role of the private sector in formulating and implementing such a strategy should be vigorously enhanced. Such a framework would develop or strengthen processes to assess the environmental effect of trade policies, enhance coordination between environmental and trade policies, including cooperation between environmental and trade officials in the policy development process and promote transparency and openness to the public in these processes.

C. Alleviating intrinsic handicaps of island developing countries

53. In an increasingly competitive world, the island developing countries are at a serious disadvantage because of the intrinsic weaknesses of their economies, which is a result of the range of adverse factors that have been discussed above. The island developing countries should therefore with the support of the international community give high priority to the following policy actions.

Human and institutional development

54. The human resources and institutional infrastructure development programmes should be enhanced. Special attention should be given to the development of adequate statistical databases and specialized software packages and to incentives to attracting skilled returning migrants. There is a need for special programmes of "education for sustainable development" that put special emphasis on changes in attitudes and values and on cultivating an island-specific culture that is responsive to new socio-economic challenges.

55. In view of the growing need for skilful negotiations on the part of island developing countries in international forums and with foreign investors, special training programmes should be organized with the support of the international community to overcome these particular constraints.

56. Efforts must be made to promote actively indigenous entrepreneurs. Returning migrants with entrepreneurial skills and capital should be provided with the appropriate environment to make a contribution in this area.

57. Measures to enhance socio-political stability, good governance and sound macroeconomic policies that are conducive to private foreign and domestic investment should be strongly encouraged.

Technology transfers

58. Island developing countries should identify appropriate technologies to encourage an environment-friendly diversification of production and trade and help to adapt to changing market conditions and compete internationally.

Natural resources

59. They should seek to fully exploit, within the framework of sustainability, their agricultural potentials and marine resources in the exclusive economic zones through enhancing the relevant skills and carrying out specialized studies on the conservation, management and surveillance of the above resources. Appropriate marketing structures and decentralized and affordable credit facilities should be encouraged.

Services

60. The service sector, particularly tourism and offshore services, should be encouraged. In developing tourism, efforts should be made to encourage forward and backward linkages in other sectors of the economy. Proper management of environmental assets, which is essential for the sustainability of tourism, should be promoted. Environmental considerations should be taken into account in tourism development by encouraging new types of tourism such as eco-tourism and cultural tourism that are based on or associated with environmental assets, and therefore imply environmental protection.

Transport and communications

61. Innovative approaches to transport and communications development that facilitate low-cost access to such services, particularly for the small remote island developing countries and archipelagic countries should be promoted. Projects to improve not only links with the main trading partners but also inter-island feeder services should receive special donor attention because many of them do not meet the normal commercial criteria. International assistance will be required for island developing countries to improve their information infrastructure and enhance their trade opportunities through the use of telematic facilities such as Internet.

Global hazards

62. National regulations should be put in place to counter illicit uses of offshore financial instruments, and measures to prevent drug trafficking should be enhanced through regional and international cooperative arrangements.

63. Disaster preparedness and warning capabilities should be enhanced, and measures to mitigate the effects of disasters should be integrated into long-term trade policies and planning.

64. Measures to mitigate the consequences of global warming and sealevel rise should be a central part of environmental planning.

Efficiency of import regimes

65. The small and remote island developing countries, with their heavy dependence on imports, need to be supported to identify ways of reducing the costs of their imports. This may include, inter alia, better access to competitive sources of supplies, streamlining of import procedures, the establishment of databases on international prices and quality of import products. Such countries should also undertake measures to discourage imports of certain products which pose a threat to their fragile environment.

D. Liberalization, globalization and sustainable development

66. Sustainable economic development in island developing countries largely rests on specialization in sectors that are not only viable economically, but also non-polluting (environment-neutral/friendly) or based on environmental assets (for example, eco-tourism). The question of specialization in the pursuit of sustainable economic development is of particular importance. The implications for specialization of trade liberalization and globalization should be further analysed, with a view to maximizing the benefits of new trading opportunities.

E. Enhancing the use of current trading opportunities

67. The capacity of island developing countries to better exploit existing trade preferences should be strengthened. In spite of the erosion of preferential margins, generalized systems of preferences (GSP) are expected to continue to play a significant role in facilitating the participation of island developing countries in international trade. Rules of origin criteria should be flexibly defined for the most poorly endowed countries. Preference-giving countries should be encouraged to accept relatively higher proportions of third-country inputs in the manufacturing of export goods and provide for simple administration of documentary and shipment requirements. Other measures to enhance the effectiveness of GSP schemes should include the extension of product coverage to more goods of export interest to island developing countries (e.g., tropical products, leather goods, textiles and clothing) and the harmonization of GSP rules of origin among preference-giving countries.

F. Taking advantage of new trading opportunities

68. Island developing countries should make an effort to analyse their specialization pattern, identify new trading opportunities in goods and services, and devise national policies for envisaged diversification. Such

support could involve detailed national studies, for those countries seeking an enhanced specialization, of their current specialization (factors, structure, etc.), re-specialization potential, and new trading opportunities with respect to goods or services (including for "niche" markets) in the regional and international trading environment. National policies could then be recommended to warrant successful diversification in these countries.

69. Developing the capacity of island developing countries to identify new trading opportunities is essential for these countries. This could be achieved through systematic analysis, at the national level, of the implications of changes in market access for island exports, considering the existing patterns of trade and the potential for diversification. The development of trade information capacities through global communications facilities should be actively pursued in this connection. Generally, more technical assistance will need to be devoted to the identification of new trading opportunities and dissemination of findings.

70. Awareness of the new rights and obligations of island developing countries which are or will be members of WTO is also essential, and will imply continued technical assistance to facilitate the implementation of market access commitments and enable them to implement legislative and regulatory changes with regard to non-tariff policies and new issues (TRIMs and TRIPs, in particular).

G. Promoting a favourable environment to enhance specialization

71. In order to enhance their specialization or, whenever necessary, "re-specialize", island developing countries need to create an "enabling" environment for investment, diversification and trade expansion. A useful input, to that end, would be the preparation of a policy paper on the areas of action to take into consideration to enhance the specialization of such a country (investment, technology, trade, human resource development). Detailed policy recommendations could then be provided to individual island developing countries on investment, technology and the "enabling" economic infrastructure for trade development, including domestic support services; and on trade, including the adaptation of national trade policies to the new multilateral trade framework. Human resources for investment attraction, technological development and trade expansion should also be enhanced in the perspective of re-specialization in individual island developing countries.

H. Developing sectoral information

72. Action should be taken to raise the level of awareness of opportunities for enhanced specialization in goods or services that are of special interest to island developing countries, with particular emphasis on the conditions for success and expected benefits. This could involve developing a database on sectoral specialization in those countries; establishing an inventory of sectoral activities and related trading opportunities of potential interest to island developing countries that seek to enhance their specialization; and carrying out special in-depth studies of selected sectors of goods and services

for enhanced specialization in those countries, with particular focus on conditions for success and anticipated benefits.

I. Regional and international support measures

73. The donor community is called upon to provide to the island developing countries the required financial and technical assistance in support of their domestic efforts in all the critical areas that have been elaborated on above. Given the particularly acute resource constraints and the volatility of export earnings of most island developing countries, international assistance should continue to be provided on highly concessional terms and over a long time-frame. Other terms and conditions of such assistance including the procedures for aid delivery should be flexible and simplified in order to respond to the vulnerability of these countries.

74. In view of the small size constraint on many island developing countries, special efforts should be made to promote regional cooperation arrangements which offer a viable framework for achieving economies of scale in various economic activities, particularly with regard to resource exploitation, protection and policing of coastlines and exclusive economic zones, environmental protection, trade, development and sharing of human resources, expansion of inter-island feeder services, tourism development and exchange of information on successes and failures in various areas of development.

75. Subregional, regional and international organizations involved in trade-related issues should stand ready to provide the required technical assistance designed to strengthen the efficiency of the external sectors of the island developing countries, including assistance in enhancing their capabilities to negotiate in international forums and with foreign partners such as private investors. The role of the Alliance of Small Island States (AOSIS) in this regard should be further strengthened and similar initiatives by other institutions should be encouraged.

J. The role of UNCTAD

76. UNCTAD, in its field of competence and in collaboration with the relevant regional and international organizations, should be prepared to extend to them a technical cooperation capacity in respect of policies for sustainable economic development. A technical cooperation project in favour of island developing countries should be developed along these lines and provide, inter alia, for analysing the scope for those countries for enhancing their international competitiveness and specialization in certain new sectors of goods or services of particular interest to these countries. UNCTAD should carry out specialization strategy studies at the national level to assist such countries in exploiting new trading opportunities and enhancing their specialization. The areas to be covered relate, inter alia, to investment, trade, technology and human resource development.

77. It is recommended that a second meeting of island developing countries and donor countries, similar to the one convened in 1990 pursuant to General Assembly resolution 43/189 be organized by UNCTAD by mid-1997 to assess, inter alia, the progress in the implementation of the recommendations of this panel, including the review of the activities carried out within the framework of the technical cooperation project mentioned above.